

Addressing High Gas Prices

Why are gasoline prices so high?

- **Supply and demand.** Our need for oil has grown, we face new competition from emerging economies like China and India, and domestic production and refining capacity haven't kept pace.
- **We're too dependent on the Gulf Coast region.** Tight supplies mean even one unscheduled refinery shutdown can prop up gasoline prices. Hurricanes Katrina and Rita shutdown virtually all Gulf of Mexico oil production – 1 to 2 million barrels a day.
- **Washington has been slow to respond.** These problems took decades to develop and won't be solved overnight, but we're turning things around.
 - ✓ Had President Clinton not vetoed ANWR 10 years ago, we could be producing 1 million barrels of oil today. More importantly, we would have a more diverse supply oil production.
 - ✓ The House passed a comprehensive energy policy to increase production and conservation four times before it was finally enacted it this summer. Crude oil prices have more than doubled since the House first passed an energy bill in August 2001.

Congress is taking action to lower the cost of gasoline over the mid- and long-term.

The Gasoline for America's Security (GAS) Act:

- Increases U.S. fuel supply
 - ✓ Encourages new refineries through regulatory relief and risk insurance
 - ✓ Reduces the number of "boutique fuels" around the country from 17 to 6.
- Promotes conservation through carpooling and a fuel-efficiency awareness campaign
- Bans price gouging
- Requires an FTC study into credit card company processing fees, which may inflate consumer costs

The Energy Policy Act of 2005:

- Requires alternative fuels – requires 7.5 billion gallons of renewable fuel to be included in all gasoline sold in the United States by 2015. This will reduce crude oil imports by more than 2 billion barrels.
- Promotes domestic oil production
 - ✓ Requires inventory of oil and gas resources on the Outer Continental Shelf to enable the federal government to better assess the extent of these resources.
 - ✓ Encourages building new refineries and expanding existing refineries.
 - ✓ Expedites commercial leasing to access the more than 2 trillion barrels of oil in oil shale deposits scattered across the nation.
 - ✓ Eases the permitting process for development on federal lands.
- Conservation
 - ✓ Offers tax credits for the purchase of a hybrid car.
 - ✓ Boosts funding for the Department of Energy's "Clean Cities" program, which provides grants to state and local governments to acquire alternative fueled and fuel cell vehicles, hybrids and ultra low-sulfur diesel vehicles.
 - ✓ Launches a state-of-the-art program to get hydrogen fuel-cell vehicles on the road.

Small changes can save gasoline (from AAA and Consumer Reports)

- Keep tires inflated at the proper pressure. According to the EPA, a tire that is underinflated by only 2 pounds per square inch can cause a 1 percent increase in fuel consumption.
- Avoid quick starts and sudden stops. A car's gas mileage decreases rapidly at speeds above 60 mph.
- Buy gasoline during coolest time of day or late evening and don't top off your tank.
- Keep windows closed when traveling at highway speeds. Open windows cause air drag, reducing your mileage by 10 percent.

America's Need for New Refineries

Lack of U.S. refineries drives up costs at the pump.

No new refinery has been constructed in the United States since 1976. There are 148 operating refineries in the United States, down from 324 in 1981. For the first seven months of 2005, total capacity at operating refineries was 17 million barrels per day, while total United States demand averages nearly 21 million barrels per day. This growing gap is met by an increasing amount of imports of refined products from foreign sources. Refined petroleum product imports are expected to grow from 7.9 percent to 10.7 percent of total refined product by 2025.

U.S. refineries are too concentrated in gulf states vulnerable to natural disasters.

About 47 percent of our refining capacity is in the Gulf states and 28 percent of our oil production is concentrated offshore in the Gulf of Mexico. Any change can cause supply constraints and price spikes. Refining utilization rates are currently at 95 percent of operating capacity and at peak times of the year, even higher. By comparison, other industries average an 82 percent operating capacity.

Hurricanes Katrina and Rita brought oil production and refining in the Gulf to a stand still, driving up prices

- ✓ Within a week of Hurricane Katrina's landfall, the national average retail price for motor vehicle gasoline rose by 46 cents to \$3.069 per gallon. Prices of other refined fuels also rose quickly in response to the hurricane.
- ✓ In the immediate aftermath of Katrina alone, U.S. refining capacity was reduced by more than 2 million barrels per day.
- ✓ According to economic analysis, households are conservatively estimated to spend an average of \$1,948 this year on gasoline, up 45 percent from three years ago and households with incomes under \$15,000 (20 percent of all households) this year will spend, on average, more than 10 percent of their income just on gasoline.
- ✓ Supply constraints have an even bigger impact on rural Americans. It is estimated that rural Americans will spend \$2,087 on gasoline. Rural Americans are paying an estimated 22 percent more for gasoline than their urban counterparts because they must drive longer distances.

Refineries aren't being built due, in part, to a permitting process that is overly cumbersome and capital intensive.

- ✓ Refiners are subject to significant environmental and other regulations and face several new Clean Air Act requirements over the next decade. New Clean Air Act requirements will benefit the environment but will also require substantial capital investment and additional government permits.
- ✓ There is currently a lack of coordination in permitting requirements and other regulations affecting refineries at federal, state and local levels. There is no consistent national permitting program for refineries, compared with the Federal Energy Regulatory Commission's (FERC) lead agency role over interstate natural gas pipelines, liquefied natural gas and hydroelectric power and the Nuclear Regulatory Commission's role over nuclear plants. More regulatory certainty and coordination is needed for refinery owners to stimulate investment in increased refinery capacity.

Our national security is threatened by a growing reliance on foreign sources of refined petroleum products. It serves the national interest to increase refinery capacity for gasoline, heating oil, diesel fuel and jet fuel wherever located within the United States, to bring more supply to the markets for use by the American people.

Gasoline for America's Security Act of 2005 Highlights

- **Encourages new refineries to increase supply and address soaring gasoline prices.**
 - ✓ Reforms cumbersome siting procedures for projects at the request of a state's governor or on presidentially designated federal lands.
 - ✓ Provides regulatory risk insurance for new refiners.
 - ✓ Requires the president to designate sites on federal lands, including at least three closed military installations that are appropriate for the purposes of siting a refinery.
 - ✓ Authorizes the president to enter into contract to have a refinery permitted, constructed and operated to make petroleum products for military consumption.
 - ✓ Removes regulatory road blocks: Implements a Clinton Administration recommendation to allow a city or region to apply for an extension of clean air deadlines if local leaders can demonstrate downwind pollution from another area is to blame.
- **Limits "boutique fuels" that have propped up gasoline prices by artificially limiting supply.**

Requires the EPA administrator to identify a total of six gasoline and diesel fuels for a Federal Fuels List, down from 17 today that make excess fuel from one part of the country unusable where shortages occur.
- **Promotes new pipelines to get new crude oil and refined product to consumers at lower prices.**
 - ✓ Reforms siting requirements for pipelines and for pipeline expansions.
 - ✓ Encourages expeditious construction of the Alaska Natural Gas Pipeline by sunseting loan guarantee on the Alaska Natural Gas Pipeline within two years of enactment of the GAS Act of 2005 if the state of Alaska has not entered into an agreement regarding construction of the pipeline.
 - ✓ Requires the DOE secretary study and report on the availability of sufficient backup power capacity for crude oil or refined petroleum product pipeline facilities significant to the nation's supply needs.
 - ✓ Requires Outer Continental Shelf "gathering" companies to provide key information to FERC to help prevent monopolistic practices that can increase costs for consumers.
- **Promotes conservation through carpooling.**
 - ✓ Directs the DOE secretary to establish and carry out a program to encourage the use of carpooling and vanpooling to reduce the consumption of gasoline. The secretary may make grants to state and local governments for carpooling or vanpooling projects.
 - ✓ Requires the EPA administrator to evaluate and assess carpool and vanpool projects funded under the Congestion Mitigation and Air Quality program to reduce consumption of gasoline; determine the direct and indirect impact of the projects on air quality and congestion levels; and ensure the effective implementation of the projects under such program.
 - ✓ Requires the secretary to establish a public-private group to create a multimedia public education campaign to inform drivers how to conserve fuel.
- **Bans price gouging in gasoline or diesel fuel sales.**
 - ✓ Outlaws price gouging, as defined by the Federal Trade Commission (FTC), in gasoline or diesel fuel sales; requires the FTC to promulgate a standard for price gouging within one year of the legislation's enactment. The federal ban does not affect anti-gouging measures already in place in a number of states.
 - ✓ Requires the Federal Trade Commission to draft a report on the price of refined petroleum products on the New York Mercantile Exchange.
- Permits the DOE secretary to and sell petroleum products from the Strategic Petroleum Reserve (SPR) to finance construction of the additional capacity needed to fill the SPR to 1 billion barrels.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE I—INCREASING REFINERY CAPACITY

Reformed refinery siting procedures

- ✓ Available to new refineries and refinery expansions in two cases:
 - At the request of the governor of a state; or
 - On federal lands sites, including closed military installations, designated by the president.
- ✓ Establishes DOE as the lead agency for siting refineries. As lead agency, DOE:
 - Coordinates all authorizations required under federal law (e.g., Clean Air Act, Clean Water Act, RCRA and Safe Drinking Water Act permits).
 - Establishes schedule for all authorizations required under federal law.
 - Maintains a record of all decisions made or actions taken by DOE and other federal or state agencies with respect to any federal authorization.
- ✓ Judicial review of any decision made by a federal or state agency acting pursuant to a federal authorization or failure to meet the schedule would use D.C. Circuit Court as its exclusive jurisdiction.

Regulatory risk insurance

New refineries sited under the reformed siting procedures would be able to take advantage of the “standby support provisions” similar to that provided for new nuclear plants under the Energy Policy Act of 2005.

- ✓ Since refineries are capital intensive, delays occurring after large capital outlays can have a dramatic effect on the economic feasibility of new refineries.
- ✓ The perception of this risk by investors drives up the cost of potential financing. (For example, the Yuma, Ariz., refinery project location had to be changed from Maricopa to Yuma because of a change in Clean Air Act attainment classification.)
- ✓ DOE would be able to enter into contracts with new refinery sponsors to compensate them for certain delays that are beyond their control. Those delays include regulatory and litigation delays, but not normal business risk or the failure of the sponsor to take any action that would mitigate the delay.
- ✓ Covered costs include principal or interest on financing debt and costs resulting from decreased throughput and consequently lost sales.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE I—INCREASING REFINERY CAPACITY

New Source Review

Seeks to bring clarity and regulatory certainty to the New Source Review (NSR) program by harmonizing the definition of the term “modification” when used in both the New Source Performance Standards program and the NSR program.

- ✓ The NSR program is a preconstruction permitting program that requires state of the art pollution control technology among other requirements when new sources are constructed or the modification of an existing source results in an emissions increase over permitted limits.
- ✓ The NSR program was never meant to be an emission-reduction program. Opponents seek to deploy NSR in a way that it was never designed to operate and are attempting to turn NSR into a step back to the command-and-control, facility-by-facility emission reductions approach. That approach was expensive and environmentally counterproductive.
- ✓ The market-oriented emission reduction schemes featured in the 1990 Clean Air Act Amendments and recently, in the CAIR rule, are better suited to achieving significant emissions reductions.
- ✓ **The GAS Act:**
 - Directs the Environmental Protection Agency (EPA) to use the legal flexibility available to the agency to enable participants in the energy sector, including refineries, electric power generation and compressor stations, to restore, maintain and improve the efficiency and reliability of these facilities without unnecessary delay and expense.
 - Directs EPA to initiate a rulemaking and take all other steps to reform, as expeditiously as practicable, the NSR program.
 - Ensures NSR requirements apply to new refineries and plants or significant expansions to them as Congress intended, but exempts modest plant modifications. The definition of modification, which triggers NSR, would remain as it is under the New Source Performance Standards program – any physical or operational change to an existing facility which results in an increase in the emission rate of any pollutant to which a NAAQS applies.
 - The routine maintenance, repair and replacement projects that are routine for an industry – increases in the hours of operation, and increases in the production rate of an existing facility – if accomplished without capital expenditure would remain outside the scope of the definition of modification.
 - Confirms that the replacement of deteriorated equipment with new or functionally equivalent equipment that does not create new emissions but makes the facility safe and more efficient to operate is not a modification.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE I—INCREASING REFINERY CAPACITY

Federal fuel waiver authority

Provides the president the authority to temporarily waive federal, state and local fuel or fuel additive requirements in the event of an extreme and unusual supply circumstance caused by a natural disaster. The language enhances authority established under the Energy Policy Act of 2005 – and exercised by the EPA in response to Hurricanes Katrina and Rita – to eliminate uncertainty concerning state environmental laws.

- ✓ Waivers issued by the president, in consultation with EPA and DOE, are for the time period necessary to permit the correction of the extreme and unusual supply circumstance caused by the natural disaster, but may be no longer than 90 days.
- ✓ States shall not be harmed under the provisions Clean Air Act, including State Implementation Plan (SIP) requirements, by any emissions attributable to a waiver issued either by EPA or the President.

Attainment dates for downwind ozone nonattainment areas

This proposal codifies a 1998 Clinton administration policy by allowing a city or region to apply for an extension of clean air requirements if local leaders can demonstrate downwind pollution from another area is to blame.

- ✓ In 1998, the EPA issued additional guidance on downwind ozone nonattainment areas that indicated that in certain defined circumstances, the agency would extend dates for downwind areas that suffered from pollution transport.
- ✓ This provision is consistent with the 1998 Clinton administration policy.
 - If the EPA does approve the extension, the deadline will be no later than the new date that the area would have been subject to had it been bumped up.
- ✓ It does not let downwind areas off the hook. The EPA administrator may extend the attainment date for the downwind area if the administrator:
 - Determines that any area is a downwind area with respect to a particular NAAQS for ozone;
 - Approves a plan revision for such area, which complies with all requirements applicable under the current classification of the downwind area, includes additional measures needed to demonstrate attainment by the extended attainment date sought, and provides appropriate measures to ensure no area downwind of the downwind area receiving the extended attainment date will be affected by transport to a degree that affects the area's ability to attain;
 - Determines the downwind area has demonstrated it is affected by transport from an upwind area to a degree it affects the area's ability to attain.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE I—INCREASING REFINERY CAPACITY

Federal Fuels List

Requires the EPA administrator to identify a total of six gasoline and diesel fuels for a Federal Fuels List, down from 17 today that make excess fuel from one part of the country unusable where shortages occur. California or states dependent on refineries in California for gasoline or diesel fuel are excepted.

- ✓ This list will include fuels that, as determined by the EPA administrator and the DOE secretary, respectively, reduce ozone emissions to assist states in attaining established ozone standards and will not result in a reduction in supply or in producibility, including that caused by a reduction in domestic refining capacity triggered by this list.
- ✓ The list will include 1 federal diesel fuel, one alternative diesel fuel, 1 conventional gasoline, 1 reformulated gasoline, and two additional gasolines with Reid vapor pressure controls for use in ozone nonattainment areas of varying degrees of severity.
- ✓ If DOE determines that the list of fuels selected by EPA and DOE will result in a reduction in supply or producibility, EPA and DOE will report that finding to Congress and suspend the implementation of the list.
- ✓ Upon promulgation of the Federal Fuels List, EPA has no authority to approve a State Implementation Program (SIP) or SIP revision unless the fuel proposed is one from the list. Furthermore, approval of the fuel from the list into the SIP or SIP revision by EPA may not occur if it will cause a fuel supply or distribution interruption or have a significant impact on fuel producibility in the affected area or contiguous area.
- ✓ EPA, in consultation with DOE, will develop a plan to harmonize the currently approved fuel blends in SIPs with those blends included on the Federal Fuels List. The plan must be fully implemented by Dec. 31, 2008.
- ✓ Amends the Boutique Fuels Study in Section 1541(c) of the Energy Policy Act of 2005 to include an examination of the development of a fuels system maximizing fungibility and supply, while preserving air quality and reducing price volatility, but includes an examination of the impact on ozone emissions and supply of a mandatory reduction to a total of 6 fuels.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE II—INCREASING DELIVERY INFRASTRUCTURE

Pipeline siting

Establishes FERC as lead agency for siting crude and petroleum product pipelines. As lead agency, FERC:

- ✓ Coordinates all applicable federal authorizations.
- ✓ Establishes a schedule for all federal authorizations. Failure by any agency to meet the schedule could be brought to D.C. Circuit Court.
- ✓ Maintains a record of all decisions made or actions taken by FERC and other federal or state agencies with respect to any federal authorization.
- ✓ Monitors operators of Outer Continental Shelf natural gas “gathering” lines, to help prevent monopolistic practices that can increase costs for consumers.
- ✓ In addition, judicial review of any decision made by FERC or federal or state agency acting pursuant to a federal authorization would use D.C. Circuit Court as its exclusive jurisdiction.

TITLE III—CONSERVATION

Conservation

- ✓ Directs the DOE secretary to establish and carry out a program to encourage the use of carpooling and vanpooling to reduce the consumption of gasoline. Program will include outreach activities and marketing programs, including use of the Internet, to encourage and facilitate carpools and vanpools.
- ✓ Establishes grants to state and local governments for carpooling or vanpooling projects.
- ✓ Requires the EPA administrator to evaluate and assess carpool and vanpool projects funded under the Congestion Mitigation and Air Quality program to reduce consumption of gasoline; determine the direct and indirect impact of the projects on air quality and congestion levels; and ensure the effective implementation of the projects under such program.
- ✓ Requires the secretary to establish a public-private group to create a multimedia public education campaign to inform drivers how to conserve fuel.
- ✓ Institutes study to explore using the Internet to facilitate vanpooling and carpooling.

Gasoline for America's Security Act of 2005

Key Provisions

TITLE IV—GASOLINE PRICE REFORM

- Requires the Federal Trade Commission to investigate nationwide gasoline prices in the aftermath of Hurricane Katrina.
- Requires the Federal Trade Commission to draft a report on the price of refined petroleum products on the New York Mercantile Exchange.
- Outlaws price gouging, as defined by the Federal Trade Commission (FTC), in gasoline or diesel fuel sales; requires the FTC to promulgate a standard for price gouging within one year of the legislation's enactment. The federal ban does not affect anti-gouging measures already in place in a number of states.

TITLE V—STRATEGIC PETROLEUM RESERVE

- Conditions the sale of crude from the Strategic Petroleum Reserve to refiners that will refine such crude for petroleum products for consumption in the United States.
- Authorizes the creation of a Strategic Petroleum Reserve Expansion Fund to finance the acquisition of increased capacity for the Reserve.

TITLE VI—COMMISSION FOR THE DEPLOYMENT OF THE HYDROGEN ECONOMY

- Establishes a Commission for the Deployment of the Hydrogen Economy.
- Requires commission to develop a strategic plan to achieve mass commercialization of hydrogen as energy source for stationary fuel cells and vehicle fuel cells.
- Requires commission to examine ways to ensure that the United States can use all available feedstocks for hydrogen production and make recommendations for an appropriate entity to monitor progress in implementing the plan.

TITLE VII—CRITICAL ENERGY ASSURANCE

- Requires the DOE secretary to report to Congress the secretary's review of the fuel supply plan components of state and National Capitol region evacuation plans.
- Allows the DOE secretary to provide direct assistance to private sector entities that operate critical energy infrastructure, including refineries. Assistance can include emergency preparation and recovery assistance; assistance to restore access to water, power or other raw materials; and transportation and housing for critical employees.
- Establishes the Critical Energy Assurance Account so that the DOE secretary can carry out this title.